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## Supplementary mineral reserve information; Statement on auditing standards, 040

American Institute of Certified Public Accountants. Auditing Standards Board

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## Supplementary Mineral Reserve Information

(This SAS should be read and applied in conjunction with Statement on Auditing Standards No. 27, Supplementary Information Required by the Financial Accounting Standards Board.)

1. FASB Statement No. 39, *Financial Reporting and Changing Prices: Specialized Assets — Mining and Oil and Gas*, requires entities of certain size that have mineral reserves other than oil and gas<sup>1</sup> to disclose certain quantity and price information.<sup>2</sup> This supplementary information may be disclosed outside the basic financial statements.

2. Estimating mineral reserves is a complex process requiring the knowledge and experience of a specialist, generally a mining engineer or a geologist. In general, the quality of the estimate of proved, or proved and probable, reserves for an individual ore body depends on the availability, completeness, and accuracy of data needed to

<sup>1</sup>Quantity disclosures for oil and gas reserves are required by FASB Statement No. 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies*. The auditor's consideration of such disclosures is described in SAS No. 33, *Supplementary Oil and Gas Reserve Information*, which should also be applied in conjunction with SAS No. 27.

<sup>2</sup>FASB Statement No. 39 also requires that the general guidelines of FASB Statement No. 33, *Financial Reporting and Changing Prices*, for reporting the effects of changing prices be applied to the mineral resource assets of mining and oil and gas enterprises. The auditor's consideration of such disclosures is described in SAS No. 28, *Supplementary Information on the Effects of Changing Prices*, which should also be applied in conjunction with SAS No. 27.

develop the estimate and on the experience and judgment of the specialist. Estimates of proved, or proved and probable, reserves inevitably change as additional data become available and are taken into account.

3. In applying the procedures specified in SAS No. 27, the auditor's inquiries should be directed to management's understanding of the specific requirements for disclosure of the supplementary mineral reserve information, including

- a.* The separate disclosure of (1) estimated quantities of proved, or proved and probable, mineral reserves, whichever is used for cost amortization purposes, (2) estimated quantities, in physical units or in percentages of ore reserves, of significant mineral products contained in mineral reserves, (3) quantities of each significant mineral product extracted and the quantities of significant mineral product produced by the milling or similar process, (4) the quantity of mineral reserves purchased or sold in place during the year, and (5) the average market price for each significant mineral product.
- b.* The factors considered in determining the reserve quantity information to be reported, such as (1) reserves attributable to consolidated subsidiaries and (2) a proportionate share of reserves of proportionately consolidated investees.
- c.* The separate disclosure of the entity's proportional interest in reserves of investees accounted for by the equity method.

4. In addition, the auditor's procedures should include the following:

- a.* Inquire about whether the estimates of the entity's reserve quantity information were made by a mining engineer, geologist, or other appropriate specialist.
- b.* Inquire about whether the methods and bases for estimating the entity's reserve information are documented and whether the information has been reviewed on a current basis.
- c.* Compare the entity's recent production with its reserve estimates for properties that have significant production or significant reserve quantities and inquire about unexpected relationships.
- d.* Compare the entity's reserve quantity information with the corresponding information used for depletion and amortization, and make inquiries when differences exist.

- e. Compare the entity's production information with corresponding information used in preparing the financial statements, and make inquiries when differences exist.
- f. Compare the entity's information concerning mineral reserves purchased or sold in place with related information used in preparing the financial statements, and make inquiries when differences exist.
- g. Inquire about the method and bases used to calculate the market price information disclosed, compare the information to appropriate sources (such as the entity's sales prices or published mineral product prices), and make inquiries when differences exist.

5. If the auditor believes that the information may not be presented within the applicable guidelines, SAS No. 27 indicates that he ordinarily should make additional inquiries. However, because of the nature of estimates of mineral reserve information, the auditor may not be in a position to evaluate the responses to such additional inquiries and, thus, will need to report this limitation on the procedures prescribed by professional standards. The following is an example that illustrates reporting on mineral reserve information in that event:

The mineral reserve information is not a required part of the basic financial statements, and we did not audit and do not express an opinion on such information. However, we have applied certain limited procedures prescribed by professional standards that raised doubts which we were unable to resolve regarding whether material modifications should be made to the information for it to conform with guidelines established by the Financial Accounting Standards Board. (The auditor should consider including in his report the reason(s) why he was unable to resolve his doubts.)

## **Effective Date**

6. This Statement is effective for examinations of financial statements for periods ended after March 31, 1982.

*The Statement entitled Supplementary Mineral Reserve Information was adopted by the assenting votes of thirteen members of the board. Messrs. Berliner and Betts dissented.*

Messrs. Berliner and Betts dissent to issuance of this Statement because they believe that its effect will be to invite users to conclude, incorrectly, that an auditor's involvement with supplementary mineral reserve information, as prescribed in this Statement, adds significantly to the credibility of such information.

The procedures called for by this Statement are generally limited to (1) inquiries of management concerning the reserve information and (2) comparisons of certain data underlying mineral reserve estimates with other data. Messrs. Berliner and Betts believe that these procedures do not substantively address mineral reserve estimates, which are imprecise, subjective, and beyond the professional competence of auditors to evaluate substantively. A substantive review and evaluation of such estimates would require the technical geological and engineering skills of a qualified mining engineer or geologist. Accordingly, they believe that supplementary mineral reserve information should be exempted from the requirements of SAS No. 27, other than the obligation of the auditor to report an omission of the required information.

Messrs. Berliner and Betts believe that there is no apparent demand from knowledgeable investors for independent review of supplementary mineral reserve information. If, however, there should be a need, such reviews should be made and reported on by qualified mining engineers or geologists.

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